

## STATISTICAL BRIEF #72

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### Premiums in the Individual Health Insurance Market for Policyholders under Age 65, 1996 and 2002

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#### Introduction

Health insurance coverage that people buy directly from health insurers is referred to as individual (non-group) health insurance. The individual market is the main source of health insurance for Americans who are not eligible for employer-based private health insurance or public health insurance. In 2002, 4.8 percent of the non-elderly population (12.1 million people) held individual health insurance compared with 69.0 percent (173.8 million people) who held employer-based health insurance at some point during the year.

Using data from the 1996 and 2002 Household Component of the Medical Expenditure Panel Survey (MEPS-HC), this Statistical Brief examines the changes in premium levels and the population with individual health insurance between 1996 and 2002. MEPS-HC is representative of the civilian noninstitutionalized population and therefore enables nationally representative estimates of premiums levels in the individual insurance market.

The estimates in this brief represent premiums of individual health insurance policies held during the first half of 1996 and 2002. The policies discussed provide coverage for hospital and physician services. All differences between estimates noted in the text are statistically significant at the 0.05 level unless otherwise stated.

#### Findings

Table 1 shows the number of policyholders and average premiums for individual health insurance policies in 1996 and 2002. Nationwide, the total number of policyholders declined by 14.3 percent from 6.9 million in 1996 to 6 million in 2002. In both years, single policies accounted for 70 percent and family policies for 30 percent of all policies purchased in the individual health insurance market. There were 4.9 million policyholders with single policies, and 2.1 million policyholders with family policies in 1996. There were 4.1 million policyholders with single policies and 1.8 million policyholders with family policies in 2002.

#### Highlights

- Nationwide, the total number of policyholders with individual health insurance declined by 14.3 percent from 6.9 million in 1996 to 6 million in 2002. In both years, single policies accounted for 70 percent and family policies for 30 percent of all policies purchased in the individual health insurance market.
- The average premium for an individual health insurance policy increased by 44 percent from \$2,159 in 1996 to \$3,111 in 2002. This increase was larger for single policies than for family policies: the average premium for a single policy increased by 52 percent from \$1,665 to \$2,531, and the average premium for a family policy increased by 33 percent from \$3,329 to \$4,442.
- In general, older purchasers pay higher premiums than younger purchasers, reflecting the relatively higher health care costs that people incur as they get older. In 2002, average premiums for single coverage were \$1,661 for purchasers aged less than 40, \$2,767 for purchasers aged 40 to 54, and \$3,703 for purchasers aged 55 to 64.
- There is great variation in benefit and cost-sharing levels as well as medical underwriting among policies, as shown in the distribution of premiums. In 2002, the median premium for single coverage was \$1,913, the 90th percentile was \$4,728, and the 10th percentile was \$541. The median premium for family coverage was \$4,227, the 90th percentile was \$7,481, and the 10th percentile was \$1,768.

The average premium for a health insurance policy purchased in the individual market increased by 44 percent from \$2,159 in 1996 to \$3,111 in 2002.\* The increase in premiums for single policies was larger than the increase in premiums for family policies. The average premium for a single policy increased by 52 percent from \$1,665 in 1996 to \$2,531 in 2002. Premiums for a family policy increased by 33 percent from \$3,329 in 1996 to \$4,442 in 2002.

Unlike group health insurance premiums, which typically are reported as average dollar amounts for single coverage and family coverage, individual premiums typically vary by the age of the purchaser (or in the case of family coverage, by the ages of the family members). Table 2 presents the premiums for single policies by age of policyholder in 1996 and 2002. In 1996, average premiums for single coverage were \$1,288 for purchasers aged less than 40, \$1,992 for purchasers aged 40 to 54, and \$1,961 for purchasers aged 55 to 64. In 2002, average premiums for single coverage were \$1,661 for purchasers aged less than 40, \$2,767 for purchasers aged 40 to 54, and \$3,703 for purchasers aged 55 to 64. In general, older purchasers pay higher premiums than younger purchasers, reflecting the relatively higher health care costs that people incur as they get older.

Table 3 presents the premiums for family policies by age of policyholder in 1996 and 2002. In 1996, average premiums for family coverage were \$3,139 for policyholders aged less than 45 and \$3,556 for policyholders aged 45 to 64. In 2002, average premiums for family coverage were \$4,125 for policyholders aged less than 45 and \$4,707 for policyholders aged 45 to 64.

There is great variation in benefit and cost-sharing levels as well as the degree of underwriting among policies purchased in the individual health insurance market. This variability in generosity of coverage is reflected in the wide range of premiums. Table 4 presents the distribution of premiums for single policies in 1996 and 2002. In 1996, the median premium for single coverage was \$1,302, the 90th percentile was \$2,886, and the 10th percentile was \$312. In 2002, the median premium for single coverage was \$1,913, the 90th percentile was \$4,728, and the 10th percentile was \$541. Table 5 presents the distribution of premiums for family policies in 1996 and 2002. In 1996, the median premium for family coverage was \$2,722, the 90th percentile was \$5,923, and the 10th percentile was \$1,150. In 2002, the median premium for family coverage was \$4,227, the 90th percentile was \$7,481, and the 10th percentile was \$1,768.

## Data Source

The analyses in this brief are based upon data from the MEPS 1996 Person Round Plan Public Use File: HC-024, the MEPS 2002 Person Round Plan Public Use File: HC-066, and the MEPS 2002 Full Year Consolidated Data File: HC-070.

## About MEPS-HC

MEPS-HC is a nationally representative longitudinal survey that collects detailed information on health care utilization and expenditures, health insurance, and health status, as well as a wide variety of social, demographic, and economic characteristics for the civilian noninstitutionalized population. It is cosponsored by the Agency for Healthcare Research and Quality and the National Center for Health Statistics.

For more information about MEPS, call the MEPS information coordinator at AHRQ (301-427-1656) or visit the MEPS Web site at <http://www.meps.ahrq.gov/>.

## References

For a detailed description of the MEPS-HC survey design, sample design, and methods used to minimize sources on nonsampling error, see the following publications:

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\* We also adjusted for inflation by inflating premiums for 1996 up to 2002 dollars using the Consumer Price Index for all Urban Consumers (CPI-U) for all items averaged across all U.S. cities. When we express premiums in constant 2002 dollars, we find that the average premiums increased by 28.2 percent in real terms from 1996 to 2002.

Cohen, J. *Design and Methods of the Medical Expenditure Panel Survey Household Component*. MEPS Methodology Report No. 1. AHCPR Pub. No. 97-0026. Rockville, Md.: Agency for Health Care Policy and Research, 1997.

Cohen, S. *Sample Design of the 1996 Medical Expenditure Panel Survey Household Component*. MEPS Methodology Report No. 2. AHCPR Pub. No. 97-0027. Rockville, Md.: Agency for Health Care Policy and Research, 1997.

Cohen, S. Design Strategies and Innovations in the Medical Expenditure Panel Survey. *Medical Care*, July 2003: 41(7) Supplement: III-5–III-12.

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**Table 1. Average premiums and number of policyholders for individual health insurance policies, 1996 and 2002**

<b>Health insurance policies</b>	<b>1996</b>	<b>2002</b>
All policies		
Premium	\$2,159 (101)	\$3,111 (131)
Number of policyholders in millions	6.946 (.449)	5.951 (.307)
Single policies		
Premium	\$1,665 (108)	\$2,531 (151)
Number of policyholders in millions	4.884 (.344)	4.145 (.254)
Family policies		
Premium	\$3,329 (241)	\$4,442 (177)
Number of policyholders in millions	2.062 (.217)	1.806 (.147)

Note: Standard errors are in parentheses.

Source: Center for Financing, Access and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey, 1996 and 2002

**Table 2. Individual health insurance premiums for single policies by age, 1996 and 2002**

<b>Age category (years)</b>	<b>1996</b>	<b>2002</b>
<40	\$1,288 (204)	\$1,661 (183)
40–54	\$1,992 (228)	\$2,767 (254)
55–64	\$1,961 (160)	\$3,703 (356)

Note: Standard errors are in parentheses.

Source: Center for Financing, Access and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey, 1996 and 2002

**Table 3. Individual health insurance premiums for family policies by age, 1996 and 2002**

<b>Age category (years)</b>	<b>1996</b>	<b>2002</b>
<45	\$3,139 (299)	\$4,125 (253)
45–64	\$3,556 (307)	\$4,707 (253)

Note: Standard errors are in parentheses.

Source: Center for Financing, Access and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey, 1996 and 2002

**Table 4. Distribution of individual health insurance premiums for single policies, 1996 and 2002**

<b>Percentile</b>	<b>1996</b> (median \$1,302)	<b>2002</b> (median \$1,913)
90th	\$2,886 (222)	\$4,728 (294)
75th	\$2,006 (87)	\$3,261 (196)
50th	\$1,302 (81)	\$1,913 (147)
25th	\$665 (34)	\$990 (76)
10th	\$312 (40)	\$541 (74)

Note: Standard errors are in parentheses.

Source: Center for Financing, Access and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey, 1996 and 2002

**Table 5. Distribution of individual health insurance premiums for family policies, 1996 and 2002**

<b>Percentile</b>	<b>1996</b> (median \$2,722)	<b>2002</b> (median \$4,227)
90th	\$5,923 (443)	\$7,481 (242)
75th	\$4,428 (323)	\$5,657 (273)
50th	\$2,722 (229)	\$4,227 (266)
25th	\$1,813 (107)	\$2,397 (185)
10th	\$1,150 (235)	\$1,768 (202)

Note: Standard errors are in parentheses.

Source: Center for Financing, Access and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey, 1996 and 2002